a pension primer

a report by the
national council of welfare

september 1989

Canada

A PENSION PRIMER

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National Council of Welfare

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TABLE OF CONTENTS

INTRODUCTION

Canada's retirement income system is supposed to perform two essential tasks. The first is to ensure that elderly people have incomes high enough to allow them to live in dignity no matter what their circumstances were during their working years. The second is to maintain a reasonable relationship between income before and after retirement so that old age does not bring a drastic reduction in a person's standard of living.

Neither one of these objectives is being fully met. More than 600,000 people 65 and older live in poverty. Many workers with average incomes experience a sharp drop in their living standards when they retire. Only the rich have the luxury of not worrying about money, yet they are the greatest beneficiaries of the tax breaks provided by governments to help people build up nest eggs for their retirement years.

A Pension Primer is a guide for people with no special expertise in pensions. It is an update of a report published in April 1984 by the National Council of Welfare and incorporates a number of changes in retirement income plans that were enacted by governments since that time. It also highlights major shortcomings that still have not been addressed.

The report provides information in some detail about each of the three levels of the retirement income system.

The first level is made up of federal, provincial and territorial income support programs. The best known of these is the federal Old Age Security pension paid to virtually all Canadians 65 and older. The other

federal programs are the Guaranteed Income Supplement for low-income seniors and the Spouse's Allowance for some low-income people 60 through 64.

The second level is made up of the Canada Pension Plan and its sister plan in Quebec, the Quebec Pension Plan. Both plans are run by governments and ensure that members of the paid labour force put aside a modest portion of their current earnings to provide a modest amount of retirement income.

The third level includes occupational pension plans - often called private plans or employer-sponsored plans - and individual registered retirement savings plans or RRSPs. Together with benefits from the Canada and Quebec Pension Plans, these plans are supposed to replace a large portion of pre-retirement earnings.

An overview of the three levels can be found in Appendix A near the end of this report. Appendix B outlines income tax breaks for seniors, and Appendices C and D list provincial and territorial programs of special interest to seniors.

THE FIRST LEVEL: INCOME SECURITY PROGRAMS

The first level of the retirement income system provides basic income to older Canadians. It is made up of three federal programs - the Old Age Security pension, the Guaranteed Income Supplement and the Spouse's Allowance - and "top-up" programs financed entirely by six provincial governments and by the two territorial governments.

Old Age Security (OAS)

The cornerstone of income security programs for elderly Canadians is the Old Age Security pension. About 2.9 million people - virtually all Canadian residents 65 and older - receive old age pension cheques every month at a cost to the federal treasury of more than $11 billion a year.[1]

Benefits are raised every January, April, July and October in line with increases in the Consumer Price Index of Statistics Canada. This technique, called indexation or indexing, prevents the purchasing power of benefits from being eroded by inflation.

In 1989, the OAS pension was $323.28 a month during the first quarter of the year, $325.87 a month during the second quarter, $330.43 a month during the third quarter and $337.04 a month during the fourth quarter. The monthly payments added up to $3,949.86 for the year as a whole.

Old Age Security payments are taxable, so a portion of the cost is recovered by government. However, most elderly Canadians have low or

modest incomes and pay little or no income tax. Only about 17 percent of the total amount of the old age pension is paid back to the federal and provincial governments in income taxes.

The old age pension has long been described as a "universal" social program because benefits went to everyone 65 and older subject only to residence requirements. Seniors qualified for benefits regardless of whether they were retired or working and regardless of any other sources of income.

However, proposals in the federal budget speech of April 1989 threaten to end the universal nature of the program. The speech announced plans for a "clawback" of OAS benefits from high-income seniors as well as a similar "clawback" of family allowance benefits from well-to-do families.

For seniors, the specific proposal was to require people with net incomes of $50,000 or more to pay back some or all of their OAS benefits at income tax time at the rate of 15 cents for every dollar of income above $50,000.

If the clawback had been in full force in 1989, seniors with net incomes of $76,332 or more would have received no net old age pension benefits at all. Seniors with incomes between $50,000 and $76,332 would have received partial pensions.

Previous federal governments supported the idea that all seniors regardless of individual needs should receive OAS benefits. The only difference between the rich and the poor was that the rich paid higher income taxes on their benefits.

Under the clawback, income from the old age pension would be in a class all by itself. Rich seniors would pay a special tax on old age pensions that would have the effect of eliminating them altogether. They would pay regular taxes on the rest of their incomes.

Three other changes or attempts to make changes in the Old Age Security pension in recent years are worthy of mention.

First of all, new residence requirements were introduced in 1977. Seniors once qualified for full old age pensions if they had lived in Canada at least 10 years. Under the new requirements, people who spend any appreciable part of their adult lives outside Canada have to "earn" their old age pensions at a rate of 1/40th of the full pension for each complete year of residence after age 18. No benefits are paid to people who lived less than 10 years in Canada unless they came from countries which have international social security agreements with Canada.[2]

By June 1989, there were only 56,003 pensioners out of a total of 2.9 million who were receiving less than full Old Age Security pensions. Within a generation, however, many immigrants who spent years working, paying taxes and otherwise contributing to Canadian life will find themselves with less than full OAS pensions.

Secondly, caps were placed on the amount of indexation provided in the old age pension in 1983 and 1984 under the "six-and-five" anti-inflation program of the federal government. Indexation was to be limited to six percent in 1983 and five percent in 1984. The actual impact on pensioners turned out to be nil because the rate of inflation began falling sharply before the beginning of 1983. Full indexation officially resumed in 1985.

Finally, in the budget speech of May 1985, a different kind of limit on indexation was proposed by the federal government in order to help trim the deficit. The Old Age Security pension would have been indexed only for inflation in excess of three percent a year. In other words, pensioners would have lost three percent of the purchasing power of their old age pension cheques each year. This proposal was withdrawn a few weeks after the budget because of protests by seniors and others, and the old age pension remains fully protected against inflation.

Guaranteed Income Supplement (GIS)

The second federal program for the elderly is the Guaranteed Income Supplement. It was introduced in 1967 to help pensioners who have little income other than their Old Age Security pensions.

Nearly 1.4 million people 65 and older - about 47 percent of all Old Age Security pensioners - had full or partial Guaranteed Income Supplement payments added to their monthly Old Age Security cheques in 1989. The cost of the supplement to the federal government is about $4 billion a year.

The maximum supplements paid in the fourth quarter of 1989 were $400.53 a month for a single pensioner and $521.76 a month for a two-pensioner couple - $260.88 for each spouse. Couples get proportionately less than singles because they save money on many types of household expenses by sharing.

The supplements are indexed quarterly to changes in the Consumer Price Index, and there have been several ad hoc increases over the years in addition to these cost-of-living increases. Benefits are not counted as taxable income.

Low-income pensioners receive full or partial Guaranteed Income Supplement payments depending on their income. For every $2 of outside income, benefits are reduced by $1. The Old Age Security pension and a few other types of benefits do not count as outside income for the purposes of this program.[3]

Table 1 shows how GIS benefits decline and eventually disappear altogether as outside income aside from the old age pension increases. The benefits were those available in the third quarter of 1989 based on outside income received in 1988.

TABLE 1

GUARANTEED INCOME SUPPLEMENT BENEFITS, JULY - SEPTEMBER 1989

Single Pensioner		Each Person in Two-Pensioner Couple	
1988 Income Excluding OAS	Monthly GIS Benefit	1988 Income Excluding OAS	Monthly GIS Benefit
$ 0	$392.68	$ 0	$255.76
2,000	309.68	2,000	214.76
4,000	226.68	4,000	172.76
6,000	142.68	6,000	130.76
8,000	59.68	8,000	89.76
9,432 and over	0.00	10,000	47.76
		12,288 and over	0.00

Single pensioners with outside incomes of less than $24 a year qualified for the maximum GIS benefit, and they got partial benefits in the third quarter of 1989 if their incomes in 1988 were less than $9,432. Elderly couples with family incomes of less than $48 a year got maximum GIS benefits, and they received partial benefits if their family incomes in 1988 were less than $12,288.

Across the country, the proportion of elderly Canadians who receive the Guaranteed Income Supplement varies considerably. Roughly eight of every 10 pensioners living in Newfoundland and the Northwest Territories qualify for the supplement. In Ontario, fewer than four in 10 pensioners qualify.

TABLE 2

NUMBER OF PEOPLE RECEIVING OLD AGE SECURITY AND THE GUARANTEED INCOME SUPPLEMENT, JANUARY 1989

	OAS	GIS	Percentage of OAS Pensioners Receiving GIS
Newfoundland	53,481	41,669	77.9
Prince Edward Island	16,383	10,856	66.3
Nova Scotia	109,020	65,211	59.8
New Brunswick	84,266	52,734	62.6
Quebec	704,576	409,350	58.1
Ontario	1,067,667	400,804	37.5
Manitoba	139,912	67,886	48.5
Saskatchewan	133,708	64,474	48.2
Alberta	204,508	92,965	45.5
British Columbia	374,543	150,775	40.3
Yukon	934	453	48.5
Northwest Territories	1,463	1,178	80.5
Not Specified	18,500	6,620	35.8
CANADA	2,908,961	1,364,975	46.9

Poverty among the elderly has declined significantly during the last two decades, but the number of people who have to rely on the supplement to make ends meet is still very high.[4] The financial hardships of single persons are substantially more widespread and

severe than the hardships facing couples. And among singles, women are particularly disadvantaged. Nearly 79 percent of all single GIS recipients are women.

Figures A-1 and A-2 show the distribution of Guaranteed Income Supplement benefits for single people and couples as of mid-1988. Single recipients, the vast majority of them women, tend to have little outside income and are likely to qualify for fairly sizable GIS payments. In

Single People, 1988, By Size of GIS Benefit

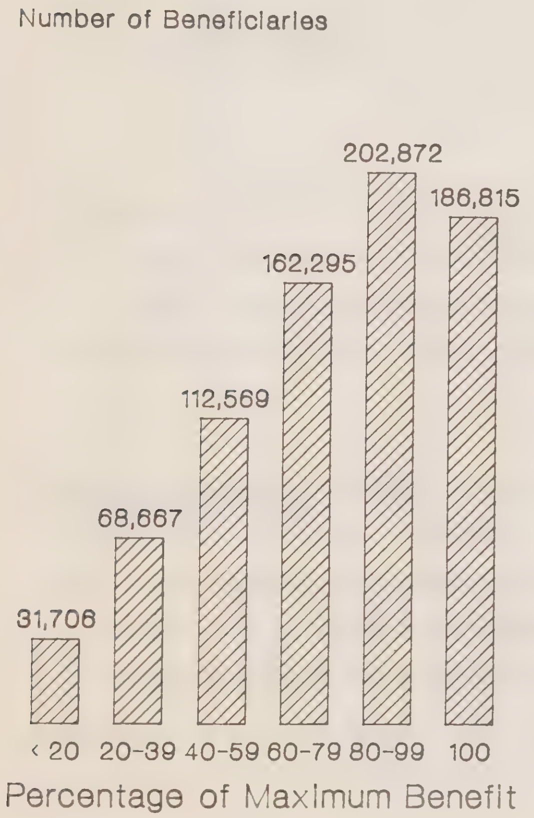


Figure A-1

Married People, 1988, By Size of GIS Benefit

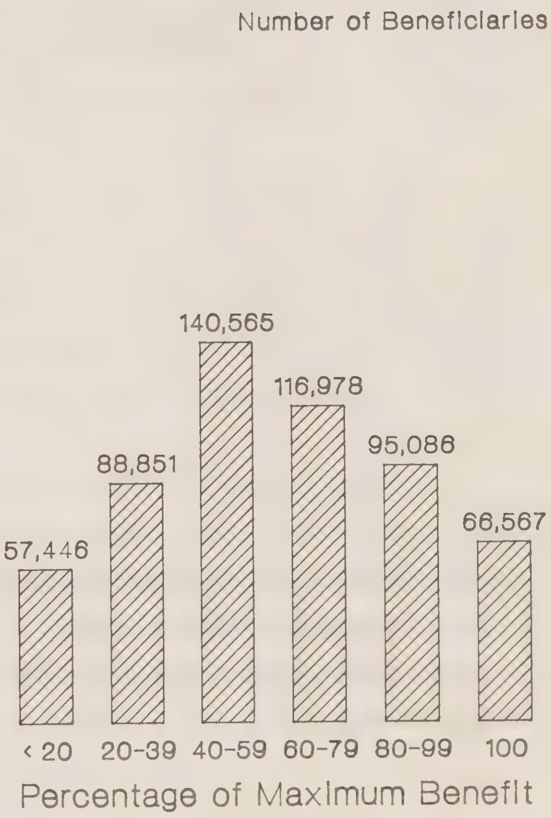


Figure A-2

1988, 186,815 or nearly one-quarter of the single people getting the Guaranteed Income Supplement were so poor that they got the maximum possible benefit. Another 202,872 singles got between 80 and 99 percent of the maximum possible.

The picture is noticeably different for married people. Only 66,567 or 12 percent of the married recipients of the Guaranteed Income Supplement were so poor that they got the maximum possible benefit. Another 95,086 got between 80 and 99 percent of the maximum, but many more got smaller amounts.

For a single pensioner, the maximum Guaranteed Income Supplement was $4,694 a year in 1989. Together with the Old Age Security pension, a single person was guaranteed an income of $8,644 a year. That amount is just below the estimated 1989 poverty line of $8,901 for a single person living in a rural area but far below the poverty line of $12,037 for a city with a population of 500,000 or more.[5]

For couples, the maximum supplement was $3,057 for each spouse in 1989. Two maximum GIS benefits plus two OAS pensions provided total family income of $14,014. That amount was substantially above the poverty line of $11,634 for couples in rural areas, but well below the poverty line of $15,881 for a large city.

Figure B shows the maximum benefits available in 1989 from the Guaranteed Income Supplement combined with the Old Age Security pension. It also shows a "poverty gap" of $3,393 for a single pensioner living in a large city and a "poverty gap" of $1,867 for a couple in a large city. The term poverty gap refers to the difference between income and the poverty line.

Federal Income Security Benefits For Low-Income Seniors, 1989

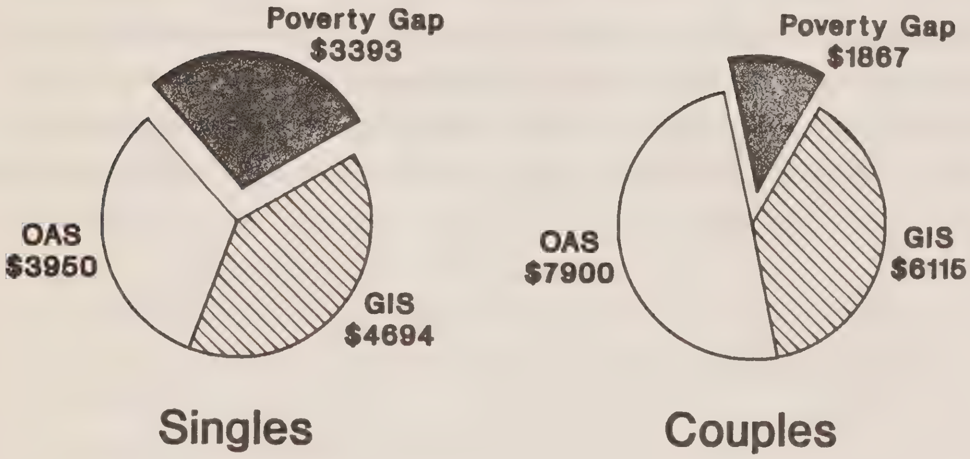


Figure B

Spouse's Allowance (SPA)

The Spouse's Allowance, by far the smallest of the three federal income security programs for the elderly, helps a select group of low-income people ages 60 through 64. The program has about 135,000 beneficiaries - the vast majority of them women - and costs the federal government about $550 million a year.

There are two different rates for the Spouse's Allowance. For people married to pensioners who receive the Guaranteed Income Supplement, the maximum Spouse's Allowance in the fourth quarter of 1989 was $597.92 a month. For widowed people, the maximum monthly allowance was $660.11.

Benefits are reduced as outside income rises and eventually disappear altogether. In 1989, married people 60 through 64 qualified for partial Spouse's Allowances if their family incomes in 1988 were under $17,952. Widows and widowers got Spouse's Allowances if their 1988 incomes were under $13,200.

The payments are not subject to income tax and are raised quarterly in line with the Consumer Price Index.

The Spouse's Allowance dates back to 1975. The program was designed to provide benefits equivalent to the Old Age Security pension and the Guaranteed Income Supplement. The initial target group was people in need 60 through 64 who were married to GIS recipients.

People who got the Spouse's Allowance used to lose all their benefits when their pensioner spouses died. That inequity was eliminated in 1979 under legislation that allows recipients to continue receiving benefits to age 65, when they become eligible for the Old Age Security pension and Guaranteed Income Supplement.

Further changes were enacted in 1985 to open the Spouse's Allowance to all widows and widowers 60 through 64 who are in need.[6] However, the program still does not cover low-income single people 60 through 64 who never married, people 60 through 64 who are divorced or separated or older couples where both spouses are under 65.

Many of the people who are excluded from the Spouse's Allowance are not in the paid labour force. Their main alternative is welfare, and welfare rates are generally much lower than the allowance.

As with the Guaranteed Income Supplement, the Spouse's Allowance is too small to keep all its recipients out of poverty. The maximum Spouse's Allowance for a widow or widower was $7,736 for 1989. That was $4,301 a year under the poverty line for a large city. For a married person, the maximum Spouse's Allowance was $7,007. One maximum allowance combined with a spouse's Old Age Security pension and maximum Guaranteed Income Supplement provided family income of $14,014. That was $1,867 below the poverty line for a large city.

One quirk in the Spouse's Allowance program that developed over the years is that benefits continue to be paid at a lower "married rate" when recipients lose their spouses.

A widow or widower 60 through 64 getting the maximum Spouse's Allowance got $660.11 a month in the fourth quarter of 1989 under a married rate. Meanwhile, a widow or widower 65 or older getting the old age pension and the maximum Guaranteed Income Supplement got $737.57 a month under a single rate - $77.46 a month more.

Provincial and Territorial Income Supplements

Elderly people living in Nova Scotia, Ontario, Manitoba, Saskatchewan, Alberta, British Columbia, Yukon and the Northwest Territories receive provincial or territorial income supplements as well as federal income security benefits.

The amounts payable and eligibility for the supplements vary considerably from province to province. Most of the programs start at age 65, but Manitoba pays supplements to retired people beginning at age 55, Alberta has a special pension for widowed persons 55 to 65, and British Columbia pays its supplement to people from age 60.

At last count, there were approximately 430,000 people or roughly 15 percent of all seniors receiving provincial and territorial income supplements. The total value of the benefits was in the order of $240 million a year.

TABLE 3

PROVINCIAL AND TERRITORIAL INCOME SUPPLEMENTS FOR THE ELDERLY, 1989

	Maximum Annual Benefit	
	Single Person	Two-Pensioner Couple
Nova Scotia Special Social Assistance	$ 219	$ 438
Ontario GAINS-A	996	1,992
Manitoba 55 Plus	421	906
Saskatchewan Income Plan	960	1,620
Alberta Assured Income Plan	1,140	2,280
British Columbia GAIN	592	1,446
Yukon Seniors' Income Supplement	1,200	2,400
Northwest Territories Senior Citizens' Benefits	1,200	2,400

Most of the supplements are paid monthly, but Manitoba makes quarterly payments and Nova Scotia only once a year.[7]

Unlike federal programs for the elderly, most provincial and territorial programs are not indexed to keep them current with the cost of living. Most of them are increased from time to time on an ad hoc basis.

Also unlike federal programs, most provincial and territorial supplements ignore the relatively greater financial needs of single people. Poverty is much more widespread and much more severe among single pensioners than couples. In 1987, 47.9 percent of the unattached elderly were poor, compared to only 14.1 percent of married seniors.[8]

Only Saskatchewan pays proportionately larger benefits to singles. In Nova Scotia, Ontario, Alberta, the Yukon and the Northwest Territories, couples get twice the benefits of single people. Manitoba and British Columbia pay couples more than twice the supplement for single pensioners.

In addition to these supplements, all provinces and territories provide other kinds of benefits to seniors, as described in Appendix C and Appendix D near the end of this report. There may be help to meet housing costs, for example, or relief from local taxes. All these programs are welcome for older people with low or modest incomes, but it is difficult to estimate how much of an impact they really have.

Inadequate Income Support

Federal, provincial and territorial programs together provide minimum guaranteed incomes for elderly people. Unfortunately, these

income security benefits are not large enough to keep all seniors out of poverty.

Table 4 shows the maximum combined benefits for singles and couples living in the largest city in each province and territory in 1989, the poverty lines for each city, and the poverty gaps in each.[9] The poverty gap of -1,060 for a couple in St. John's, Newfoundland, for example, means the couple is $1,060 below the poverty line. The gap of +413 for a couple in Edmonton means they are $413 above the poverty line.

Among poor single people, the poverty gap ranged from $1,828 in Saskatoon to $3,393 in Montreal. Seniors in the territories were close to the poverty line, but it is doubtful that the line is a reliable measure of poverty in the North, where living costs are generally much higher than the rest of Canada.

Couples fared much better. They were over the poverty line in Toronto, Saskatoon, Edmonton, Whitehorse and Yellowknife, and they were only slightly below the line in Charlottetown, Halifax and Vancouver. The worst poverty gap was in Montreal, where couples with only government income supports to rely on ended up $1,867 below the poverty line.

Overall, it is clear that the government programs that make up the first level of Canada's retirement income system are not generous enough to keep all pensioners out of poverty. Nonetheless, they are indispensable to elderly people, and poverty would be much more widespread and severe without them.

TABLE 4

DIFFERENCE BETWEEN MAXIMUM GOVERNMENT BENEFITS FOR THE ELDERLY AND THE POVERTY LINE, 1989

Single Persons

City	Maximum Income from Governments	Poverty Line	Poverty Gap
St. John's	8,644	11,432	-2,788
Charlottetown	8,644	10,725	-2,081
Halifax	8,863	11,432	-2,569
Saint John	8,644	11,432	-2,788
Montreal	8,644	12,037	-3,393
Toronto	9,640	12,037	-2,397
Winnipeg	9,065	12,037	-2,972
Saskatoon	9,604	11,432	-1,828
Edmonton	9,784	12,037	-2,253
Vancouver	9,236	12,037	-2,801
Whitehorse	9,844	9,915	- 71
Yellowknife	9,844	9,915	- 71

Two-Pensioner Couples

City	Maximum Income from Governments	Poverty Line	Poverty Gap
St. John's	14,014	15,074	-1,060
Charlottetown	14,014	14,063	- 49
Halifax	14,452	15,074	- 622
Saint John	14,014	15,074	-1,060
Montreal	14,014	15,881	-1,867
Toronto	16,006	15,881	+ 125
Winnipeg	14,920	15,881	- 961
Saskatoon	15,634	15,074	+ 560
Edmonton	16,294	15,881	+ 413
Vancouver	15,460	15,881	- 421
Whitehorse	16,414	13,048	+3,366
Yellowknife	16,414	13,048	+3,366

THE SECOND LEVEL: THE CANADA AND QUEBEC PENSION PLANS

The second level of the retirement income system is made up of the Canada Pension Plan and the Quebec Pension Plan, a sister plan for residents of the province of Quebec. The plans were started by the federal and provincial governments in 1966 as a way of providing basic pension income for members of the paid labour force and their dependents.

Like the programs that make up the first level of the system, the CPP and QPP are run by governments. Unlike the first-level plans, they are financed by contributions from workers and employers rather than from federal or provincial treasuries.

The Canada Pension Plan covers virtually all members of the paid labour force in nine provinces and the two territories as well as members of the Canadian Forces and RCMP living in Quebec. Changes in the plan require the approval of Parliament and two-thirds of the provinces with two-thirds of the population.

The Quebec Pension Plan covers workers in Quebec and is controlled by the Quebec government. More often than not, its features are identical to those of the Canada Pension Plan.

The two plans provide retirement benefits, disability pensions, benefits to dependent children of deceased plan members and to children of disability pensioners, pensions to surviving spouses and lump-sum death benefits to defray the cost of funeral expenses. More than three million people are beneficiaries of one plan or the other, and the total benefits paid now exceed $11 billion a year.

Benefits being paid are indexed at the beginning of each year according to changes in the cost of living as measured by the Consumer Price Index. The 1989 increase was 4.1 percent.

Benefits other than death benefits are paid monthly. All benefits are considered taxable income for the purposes of federal and provincial income taxes.

Workers in the paid labour force between the ages of 18 and 65 make contributions to one or the other of the plans. Workers contribute through regular payroll deductions, and their contributions are matched dollar for dollar by employers. Self-employed people pay both the employee and employer shares.

Total contributions to the Canada Pension Plan are about $6 billion a year and contributions to the Quebec Pension Plan about $2 billion. Contributions to the plans have traditionally been tax-deductible. Under tax reform, there is still a tax break, but it takes the form of a tax credit rather than a tax deduction.

TABLE 5

MAXIMUM MONTHLY BENEFITS UNDER THE CANADA AND QUEBEC PENSION PLANS, 1989

	Canada Pension Plan	Quebec Pension Plan
Retirement	$556.25	$556.25
Disability	681.23	681.23
Surviving Spouses		
* 65 and Over	333.75	333.75
* 55 to 65	311.61	546.39
* Under 55	311.61	472.63
Children and Orphans	103.02	29.00

Benefits under both the Canada and Quebec Pension Plans have been improved over the years. The last improvements came into force on January 1, 1987. Several of them brought the Canada Pension Plan into line with improvements previously made in the Quebec Pension Plan.

Here is a more detailed description of benefits as they stand after the last round of changes and the number of people who receive each kind of benefit.

Retirement Benefits. Just over two million Canadians got CPP or QPP retirement benefits worth a total of $7.6 billion in 1989. The maximum pension was $556.25 a month. The standard age of retirement remains 65, but contributors now have the option of retiring as early as age 60 with reduced pensions or as late as age 70 with enhanced pensions. The reduction or enhancement rate is one-half of one percent for every month before or after a person's 65th birthday. In other words, people retiring 60 months early at the age of 60 lose 30 percent of their normal CPP or QPP pensions. The reduced rates are permanent and continue even after the pensioners turn 65.

Disability Benefits. There were 214,000 disability pensioners under the two plans in 1989, and they got a total of $1.7 billion in benefits. Pensions are paid only to those who have severe and prolonged mental or physical problems that make it unlikely they could ever work again. Benefits consist of a flat-rate portion and a portion based on previous earnings. The maximum pension in 1989 was $681.23 a month.

Children of disabled pensioners under 18 and children 18 to 25 who are full-time students get flat-rate children's benefits from the two plans - $103.02 a month under the Canada Pension Plan and $29.00 a month under the Quebec Pension Plan. Children now are entitled to two monthly

benefits if both parents are disabled or dead and both were CPP or QPP contributors. The total caseload in 1989 was close to 63,000, and the total benefits paid were about $95 million.

Survivor Benefits. There were about 715,000 people - about 90 percent of them women - receiving survivor pensions valued at $1.9 billion in 1989. Benefits are paid to the legal spouse of a CPP or QPP contributor or a common-law spouse who had been living with a contributor for at least one year before the date of death. Divorced people do not qualify for survivor benefits.

The CPP and QPP offer the same benefits to surviving spouses 65 and older - 60 percent of the deceased plan member's retirement pension to a maximum of $333.75 a month in 1989 - but they have different formulas for spouses under 65. The maximum CPP benefit for a spouse under 65 was $311.61 a month in 1989. The maximum QPP benefits were $546.39 a month for spouses 55 to 65 and $472.63 a month for spouses under 55.

Surviving spouses of deceased plan members used to have their pensions cut off if they remarried. The Quebec Pension Plan stopped this practice in 1984 and the Canada Pension Plan followed suit in 1987. Surviving spouses previously cut off because of remarriage had their benefits reinstated.

Children of deceased plan members under 18 or full-time students 18 to 25 get flat-rate children's benefits similar to the benefits paid to the children of disability pensioners. The caseload in 1989 was about 123,000 and the value of benefits about $134 million.

As we mentioned earlier in this chapter, the money to pay CPP and QPP benefits comes from contributions by workers and their employers and the interest earned on those contributions over the years.

Under the Canada Pension Plan, contributions from workers and employers go into a special government account. Money in the account that is not immediately needed to pay benefits is loaned to provincial and territorial governments at an interest rate that is the same as the current rate on long-term Government of Canada securities.

Under the Quebec Pension Plan, the money goes to a provincial government fund called the Caisse de dépôt et de placement. Surplus funds are invested in a variety of ways, including corporate stocks and bonds, mortgages and provincial government securities.

The Canada and Quebec Pension Plans operate in a different way from the occupational pension plans described in the next chapter of this report.

Sponsors of occupational plans are required by law to maintain reserves large enough to cover the full cost of pension benefits during the lifetime of all retired plan members and the cost of future benefits for plan members still in the labour force. This requirement is known as "full funding."

The CPP and QPP have no such requirement. Both plans have built up sizable reserves of money, but they are partially funded rather than fully funded. The latest actuarial report on the Canada Pension Plan said full funding of the CPP would be inappropriate and would not make CPP benefits any more secure than they already are.[10]

The contribution rate under the Canada and Quebec Pension Plans was set at 3.6 percent of contributory earnings - 1.8 percent from workers and 1.8 percent from employers - when the plans were started in 1966. Ottawa and the provinces agreed in 1986 to make small increases in the rate each year beginning in 1987. The contribution rate in 1989 was

4.2 percent of earnings - 2.1 percent from workers and 2.1 percent from employers. The projected contribution rate for 1999 is 5.8 percent - 2.9 percent from workers and 2.9 percent from employers.

The contribution rate applies to earnings up to an annual maximum called the Year's Maximum Pensionable Earnings, minus the Year's Basic Exemption.

The Year's Maximum Pensionable Earnings or YMPE is an approximation of the average industrial wage and amounted to $27,700 in 1989. The Year's Basic Exemption is roughly ten percent of the YMPE or $2,700 in 1989.

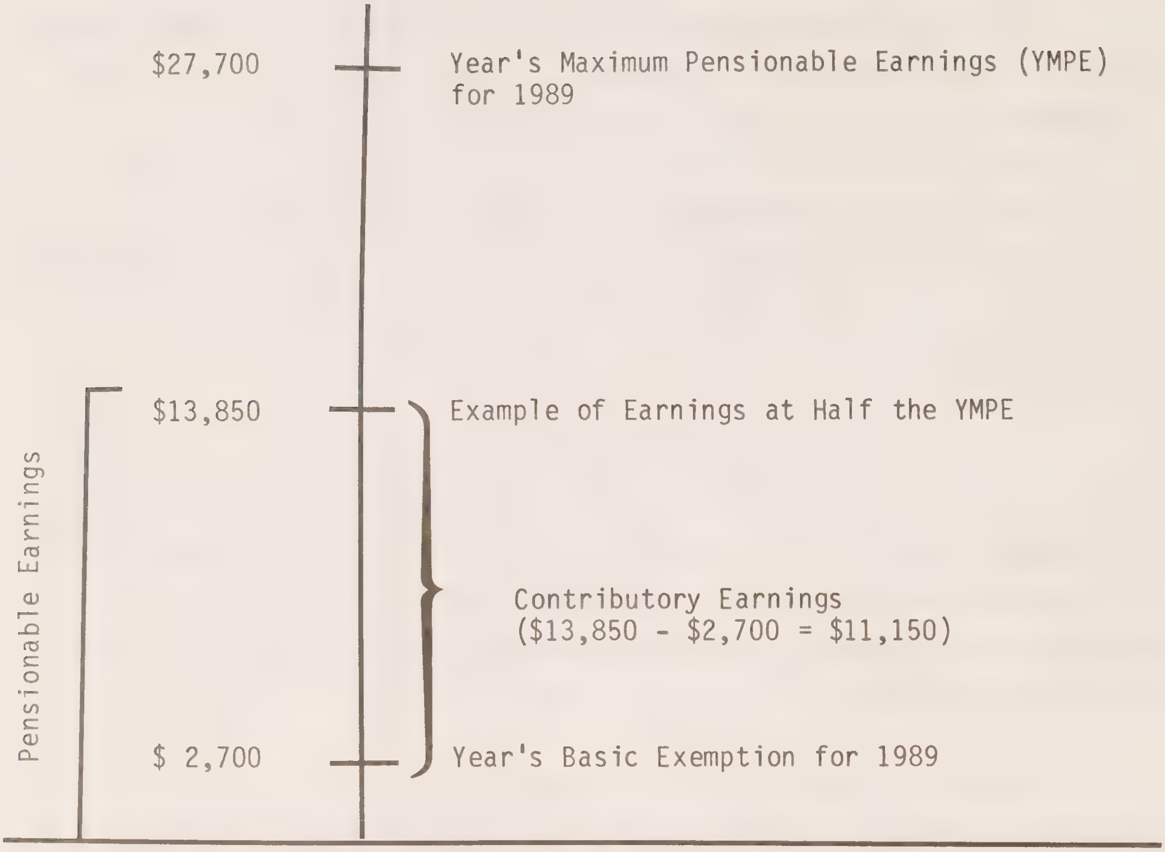
The exemption was designed in part so that people who have only a fleeting attachment to the paid labour force are not part of the Canada and Quebec Pension Plans. A person who made $1,500 a year doing odd jobs or a student who made $2,000 working at a summer camp would not contribute to the plan, because they earned less than the Year's Basic Exemption of $2,700.

Figure C shows the technical terms used in calculating CPP and QPP contributions and benefits and gives an example of a worker who earned $13,850 in 1989 - half the YMPE of $27,700. The $13,850 in pensionable earnings minus the Year's Basic Exemption of $2,700 produced contributory earnings of $11,150. At the 1989 contribution rate of 4.2 percent, the annual contribution required to the CPP or QPP was $468.30 - $234.15 from the worker and $234.15 from the employer.

Retirement benefits under the Canada and Quebec Pension Plans are based on earnings up to the YMPE each year. Roughly speaking, workers who earn the average wage or better each year of their careers get the maximum possible CPP or QPP pension. Workers who earn half the average wage each year wind up with half the maximum possible pension.

FIGURE C

CPP-QPP TERMINOLOGY



In calculating a worker's CPP or QPP pension entitlement upon retirement, pensionable earnings from previous years are all adjusted to bring them up to current wage levels. This adjustment is one of the major advantages of the Canada and Quebec Pension Plans over those occupational pension plans which use lifetime earnings as the basis for pension payments.

As mentioned earlier, retired workers who get CPP or QPP benefits have their benefits increased once a year to keep them abreast of the cost of living.

Not Enough Pension Income

The Canada Pension Plan and the Quebec Pension Plan were designed to replace only 25 percent of earnings up to the average wage. What that means in practical terms is that CPP and QPP retirement benefits combined with the Old Age Security pension are not high enough to keep most people out of poverty.

TABLE 6

RETIREMENT INCOMES OF SENIORS WITH MAXIMUM CPP OR QPP PENSIONS, 1989

	Single Person With Maximum CPP-QPP Pension	Couple With One Maximum CPP-QPP Pension
OAS Pension	$ 3,950	$ 7,900
CPP-QPP Pension	6,801	6,801
	$10,751	$14,701
GIS Income	1,465	2,886
Total Income	$12,217	$17,587
Poverty Line for Large City	$12,037	$15,881

Note: All figures are rounded to the nearest dollar. Totals may not add because of rounding.

Table 6 shows the 1989 incomes of pensioners who retired with Old Age Security pensions and the maximum possible CPP or QPP pension. Both the single pensioner and the couple with only one CPP or QPP pension needed the Guaranteed Income Supplement to get above the poverty line if they lived in a city of half a million people or more.

In reality, many Canadians who receive CPP or QPP retirement benefits get far less than the maximum possible pension because their earnings during their working lives were below average. People who retired and started getting Canada Pension Plan benefits in June 1989, for example, got an average monthly cheque of $313.12 - only 56 percent of the maximum possible cheque of $556.25.

People who retire with these smaller pensions are especially dependent on the Guaranteed Income Supplement. Table 7 shows the incomes of a single person and a couple where CPP or QPP benefits are only half the maximum possible. It takes a sizable GIS payment to bring the couple just below the poverty line for a large city. Even with a sizable GIS payment, the single person ends up $1,607 below the poverty line.

The latest available poverty statistics show 913,000 unattached individuals and heads of families who can be classed as working poor.[11] They are in the paid labour force, yet they remain below the poverty line.

Some of these workers are people with temporary job difficulties who can look forward to better-paying jobs in the future. Both the Canada and Quebec Pension Plans take account of this possibility through a "general drop-out" provision. The rule allows contributors to the plans to drop out or disregard earnings from 15 percent of their working

TABLE 7

RETIREMENT INCOMES OF SENIORS WITH ONE-HALF MAXIMUM CPP OR QPP PENSIONS, 1989

	Single Person With Half CPP-QPP Pension	Couple With One Spouse With Half CPP-QPP Pension
OAS Pension	$ 3,950	$ 7,900
CPP-QPP Pension	3,401	3,401
	$ 7,351	$11,300
GIS Income	3,080	4,500
Total Income	$10,430	$15,801
Poverty Line for Large City	$12,037	$15,881
Poverty Gap	-$1,607	-$80

Note: All figures are rounded to the nearest dollar. Totals may not add due to rounding.

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lives when calculating career earnings for pension purposes. For example, workers who struggled with below-average wages for seven years of their careers and who got average wages for 40 years would wind up with the maximum possible CPP or QPP pensions. They wouldn't be penalized for the seven bad years.

Other members of the working poor will not fare so well. They will be poor year after year because of chronic unemployment, low wages or their inability to get full-time work. When they retire, they will receive CPP or QPP pension benefits far below the maximum, and their only escape from dire poverty will be through the Guaranteed Income Supplement.

The Special Problems Facing Women

Because there are proportionately fewer women than men in the paid labour force, proportionately fewer women wind up with their own CPP or QPP retirement pensions. Women who are members of the labour force are paid much lower wages than men on average, and they have proportionately more part-time jobs than men and fewer full-time jobs.

The long-standing disparity between CPP and QPP benefits paid to men and women seems to be getting worse rather than better. Figures D-1 and D-2 show the distribution of Canada Pension Plan benefits for men and women who started getting pensions in 1977 at age 65 and for those who started a decade later in 1987.

The graph for 1977 shows that most men but relatively few women retired with CPP pensions of 80 percent or more of the maximum possible pension. On the other hand, proportionately more women than men wound up with pensions of less than 20 percent of the maximum.

By 1987, the number of women starting to claim CPP retirement benefits was up sharply, but most of them wound up with meagre pensions because of low earnings or relatively few years in the paid labour force. The graph for 1987 shows large numbers of women getting pensions of less than 40 percent of the maximum. Meanwhile, many more men than women were getting pensions of 80 percent or more of the maximum.

Women and Men Retiring at 65 in 1977 By Size of CPP Pension Cheque

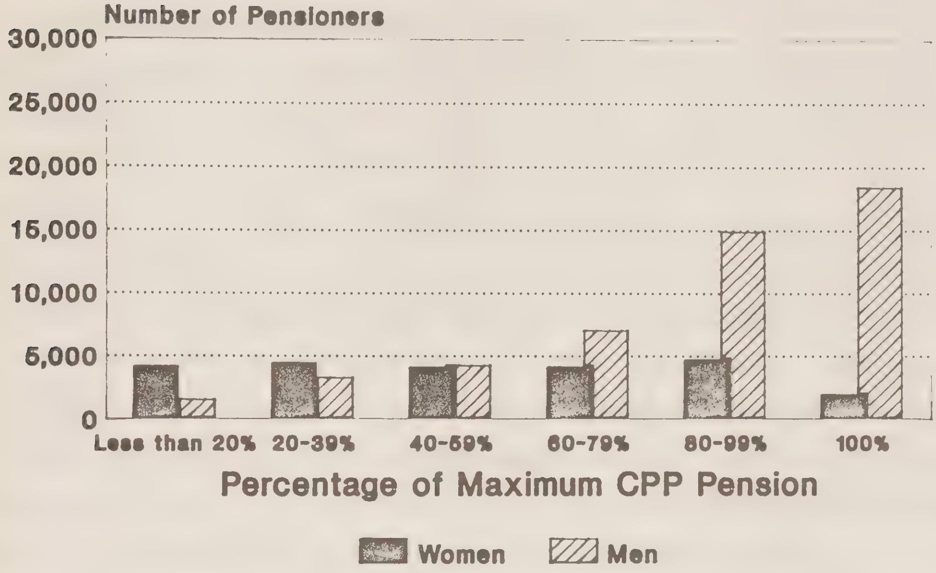

Figure D-1

Women and Men Retiring at 65 in 1987 By Size of CPP Pension Cheque

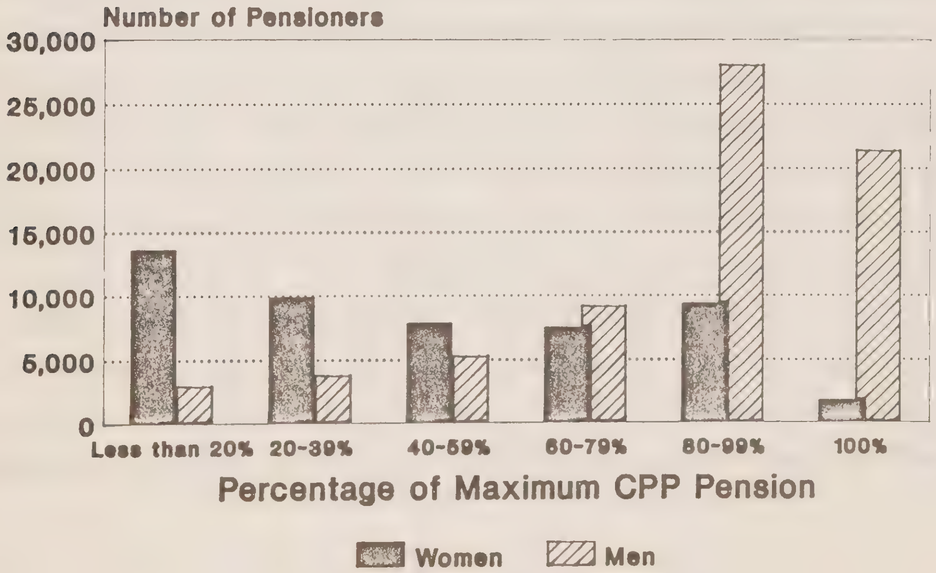

Figure D-2

The statistics are depressing for those who had assumed that the economic equality of the sexes was just a matter of time, given the increasing proportion of women in the paid labour force, affirmative action programs to get women into higher-paying occupations and pay equity legislation based on the principle of equal pay for work of equal value.

Equally discouraging are statistics on women still in the paid labour force who will retire in years to come. The average earnings of women have been roughly 60 to 70 percent of the average earnings of men in recent years. That means that the average man in the paid labour force has a reasonable chance of retiring with a full CPP pension sometime in the future. The average woman will be lucky to get 60 or 70 percent of the maximum.

Several features of the Canada Pension Plan and Quebec Pension Plan help alleviate the disadvantaged position of women. Women are by far the main beneficiaries of survivor pensions under the two plans. That provides at least minimal income for widowed homemakers who spent all or most of their working lives outside the paid labour force. However, the benefit for a person 65 and older is only 60 percent of the spouse's CPP or QPP pension to a maximum of $4,005 a year in 1989. The average survivor's pension paid by the CPP in June 1989 was only $2,350. Both those levels of incomes keep a person well below the poverty line.

For the last several years, both the CPP and the QPP have an option known as the "child-rearing drop-out" that is of special importance to women who take time off from paying jobs while their children are young. The provision allows parents - either mothers or fathers, but traditionally mothers - who stayed home while their children were under the age of seven to exclude those years from the calculation

of lifetime earnings. The child-rearing drop-out is in addition to the general drop-out of 15 percent of years worked that is available to all CPP and QPP contributors.

Quebec has had a child-rearing drop-out since 1977, but foot-dragging by Ontario denied similar help to parents in the rest of the country for many years.[12] The drop-out provision in the CPP finally came into effect in 1983, retroactive to January 2, 1978. People who retired beginning in 1978 or later now can drop out child-rearing years back to the beginning of the CPP and QPP in 1966.

The actual impact of the drop-out on the retirement incomes of women will not be known for a number of years, but a 1981 study done for the Economic Council of Canada predicted it would raise the pensions of those who took advantage of it by 21.5 percent on average.

Finally, there are provisions in both the CPP and QPP that allow pension "credits" - entitlements to future pension benefits - to be split between spouses if their marriages break down. Under credit-splitting, all pension credits earned by both spouses during their lives together are added up and divided in two. Each spouse eventually gets equal pension benefits for the time they were together.[13]

The latest round of improvements to the Canada Pension Plan was originally supposed to make credit-splitting mandatory on marriage breakdown. However, the actual legislation to amend the plan contained much weaker provisions than agreed to by Ottawa and the provinces. The legislation said credit-splitting would take place upon application unless provincial governments explicitly provided otherwise in their family laws. Saskatchewan decided to override mandatory credit-splitting in 1988.

Credit-splitting elsewhere in Canada remains far from the norm. As of June 1989, only 20,482 applications for splitting had been submitted and approved under the Canada Pension Plan since the option was first available in 1978. During that same period, there were approximately half a million divorces in Canada, not counting divorces in Quebec that could lead to credit-splitting under the Quebec Pension Plan.

One idea still being considered by the federal and provincial governments to improve the incomes of women in their retirement years is pensions for homemakers. One possibility, promoted by the National Action Committee on the Status of Women, is to double CPP and QPP benefits for all plan members and then to provide pensions equal to half the new maximum for people who spend much of their working lives at home. Homemakers in low-income families and those with children under seven would have the normal pension contributions waived. Homemakers in well-to-do families without young children would have the normal contributions paid by their spouses on their behalf.

To date, neither this proposal nor any of the alternatives studied by Ottawa and the provinces is close to becoming a reality.

Despite the shortcomings described above - particularly the limited benefits available to the poor and to women - the Canada Pension Plan and Quebec Pension Plan are built on sound and sensible foundations. They cover virtually everyone in the paid labour force, they follow workers when they change jobs anywhere in Canada, and they give pensioners full protection against the loss of purchasing power due to inflation.

Both plans could be made substantially better without changing these foundations. The same cannot be said for the pension arrangements described in the next two chapters.

THE THIRD LEVEL: OCCUPATIONAL PENSION PLANS

The first two levels of the retirement income system provide enough money to keep pensioners out of abject poverty, but not much more. Most pensioners need other sources of income to avoid a sharp drop in their standard of living after leaving the paid labour force.

The occupational pension plans and registered retirement savings plans that make up the third level of the system were intended to provide pensioners with up to 70 percent of their pre-retirement earnings. Unfortunately, relatively few people have been able to take full advantage of these two possibilities.

This chapter looks at occupational pension plans sponsored by employers, labour unions and professional organizations - plans that are sometimes called private pension plans, company pension plans, registered pension plans or employer-sponsored pension plans. The following chapter looks at RRSPs.

Occupational pension plans are essentially a way of deferring some of today's wages to provide tomorrow's retirement income. In that rough sense, they operate in much the same way as the Canada Pension Plan and Quebec Pension Plan. However, there are two important differences.

The Canada and Quebec Pension Plans cover virtually all members of the employed paid labour force. Occupational plans covered only 46 percent at the time of the last Statistics Canada survey for 1986. Coverage was nearly complete among government employees, teachers, nurses and other workers in the public sector, but only one of every three workers in the private sector was covered.[14]

The other major difference is that CPP and QPP retirement benefits are fully indexed to the Consumer Price Index, while only one occupational plan member in three had any automatic protection against inflation. Indexing was reasonably common in 1986 in plans for workers in the public sector, but it was rare in plans in the private sector.

As we explain below in more detail, the spotty coverage and lack of inflation protection in occupational plans in the private sector are major flaws - some would say fatal flaws - in the third level of the retirement income system.

More than 1.2 million Canadians received more than $8.8 billion in income from occupational pension plans in 1986, according to the latest available taxation statistics from Revenue Canada. Of those people, 828,420 were 65 years old or older, and they received nearly $5.3 billion from their plans.[15]

Among people still working, there were nearly 4.7 million members of occupational pension plans or 46 percent of the employed paid labour force at last count. Coverage by sex was 52 percent for men and 37 percent for women.

There are two basic types of funding arrangements for pension plans - non-contributory and contributory. Non-contributory means the entire cost of the plan is borne by employers. Contributory means workers have to pay a share as well.[16]

Employee contributions usually range from five to 10 percent of earnings and are collected by payroll deduction. Contributions by employees and employers alike are tax-deductible. Workers with the largest contributions get the largest tax breaks. And workers in higher

tax brackets get proportionately larger tax savings than those in the lowest tax bracket.

In 1986, 69 percent of all plan members belonged to contributory pension plans and the rest to non-contributory plans. Total contributions by plan members were $4.5 billion. Contributions by employers to both contributory and non-contributory plans were approximately $8.4 billion.[17]

There are two main ways pension benefits are delivered under occupational pension plans. Ninety-two percent of plan members in 1986 belonged to "defined benefit" plans, and most of the others belonged to "money-purchase" plans.

Money-purchase plans provide monthly incomes that are virtually impossible to estimate prior to retirement. Members build up money in their pension accounts over the years from contributions and earnings on investments. Upon retirement, the money is withdrawn and used to buy an annuity that pays a fixed amount of money every month. Annuities are not normally indexed, so members of money-purchase plans do not have their occupational pension income protected from inflation.

Income from annuities depends in large part on the prevailing interest rates at the time of retirement. If rates are high, the money in the pension account could buy an annuity that delivers relatively large monthly payments. If rates are low, the monthly payments would be relatively low.

Defined-benefit plans avoid this type of uncertainty because they guarantee members a fixed percentage of pre-retirement earnings for every year of employment. The most common practice is to take average earnings

for the five best years of a person's career and pay two percent of that figure for every year of service. In other words, a person with 35 years of service winds up with a pension that replaces 70 percent of his or her best pre-retirement earnings.

As of 1989, the maximum pension that defined benefit plans were allowed to offer by Revenue Canada was $60,025 a year. The maximum pension went to people who had best earnings in excess of $85,750 a year and 35 years of service.[18]

Contrary to popular belief, and contrary to the way the Canada and Quebec Pension Plans operate, employers who sponsor defined-benefit plans do <u>not</u> match worker contributions dollar for dollar. What they do is contribute enough money to keep their pension funds actuarially sound - that is, large enough to cover all present pension payments for retired employees and all future pension payments for current employees. Employers contribute as much money, or as little, as needed to keep the plans on a sound financial footing.

Most occupational pension plans are regulated by the federal or provincial governments and have to meet certain minimum standards. The two levels of government agreed in 1986 to improve these standards and to make them more or less uniform in all parts of the country, but all the necessary legislation has yet to be enacted.

The federal government revised its Pension Benefits Standards Act, which covers workers in federally-regulated industries such as banking and telecommunications, and brought the changes into force on January 1, 1987. Small improvements in the pension plans for federal public servants, members of the Canadian Forces and Royal Canadian Mounted Police and others under the federal jurisdiction were finally approved by Parliament in 1989. However, most of the improvements dealt only with

benefits for surviving spouses and dependent children of deceased plan members.

Alberta, Ontario, Quebec, New Brunswick and Nova Scotia all updated the legislation covering occupational pension plans under their jurisdiction after the most recent round of federal-provincial discussions on pension reform. Saskatchewan, Manitoba and Newfoundland had enacted new pension laws earlier in the 'eighties. British Columbia and Prince Edward Island still have no legislation at all covering occupational plans.

Here are the terms of the federal-provincial consensus on occupational pension plans and some of the likely results when all the changes are in full force in all jurisdictions.

Plan Membership. In the past, many part-time workers were specifically excluded from the occupational pension plans run by their employers. Under the new federal Pension Benefits Standard Act, full-time employees must be allowed to join existing plans after two years on the job, and part-time workers are eligible to join if they earn at least 35 percent of the Year's Maximum Pensionable Earnings under the Canada Pension Plan or Quebec Pension Plan for two consecutive years. Individual plans can either give eligible workers the option of joining or require that all eligible workers join.

Similar membership requirements were enacted in other jurisdictions.

Vesting and Locking-In. The intention of the federal and provincial governments was to have pension contributions vested and locked-in as soon as a worker is a plan member for two years. Vesting means workers have a right to benefits from contributions made by

themselves and also by their employers. Locking-in means the benefits are not actually paid until sometime in the future, usually not before age 55.

One practice that was fairly commmon in recent years was to vest and lock-in pension contributions only when employees had 10 years of service with the same employer. When workers changed jobs before 10 years of service, they got back their own contributions with interest, but nothing in contributions made by their employers.

Early vesting and locking-in mean most pension contributions will actually go to pay pension benefits to workers after they retire. Refunds of contributions - which people might be tempted to spend immediately rather than putting into a retirement account - should become increasingly rare.

Portability. Workers who change jobs will be able to transfer vested pension benefits to the pension plans of their new employers, to an individual RRSP where benefits are locked-in until retirement, or to an annuity that starts paying benefits upon retirement.

These options should work to the advantage of workers, provided they choose wisely. Transferring pension benefits to a new employer's pension plan makes sense if the plan is a good one. If not, workers might do better opting for a locked-in RRSP or deferred annuity.

Survivor Benefits. Ottawa and the provinces agreed that all plans should provide an option of survivor benefits equal to at least 60 percent of the pension of a plan member who dies after retirement. They further agreed that benefits should continue if the surviving spouse remarries.

It should be noted that providing an option is different from actually providing survivor pensions to all eligible plan members. The federal Pension Benefits Standards Act, for example, says survivor pensions can be waived with the written consent of both spouses.

With respect to plan members who die before they retire, there was no precise federal-provincial consensus. Several jurisdictions now provide that all or part of the pension that had been built up at the time of death should go to the surviving spouse. Depending on the jurisdiction, the survivor benefits could be in the form of a lump-sum cash payment or a transfer to an RRSP or annuity.

Prior to the 'eighties, no government required occupational pension plans under its jurisdiction to offer survivor pensions of any kind. Many of the plans for public sector employees offered survivor benefits, but many plans in the private sector did not.

By 1986, 69 percent of the members of public sector plans and 26 percent of the members of private sector plans were in plans that provided for survivor pensions <u>after</u> retirement. Many other private sector plans provided for a maximum of five years of pension payments to one spouse or the other. That is better than nothing, but not nearly good enough. A woman who loses her husband when she is 65 and lives until age 85 could be in dire straits for the last 15 years of her life.

Similarly, nearly 69 percent of the members of public sector plans and 27 percent of the members of private sector plans were in plans with provisions for spouse's pensions if the plan member died <u>prior to</u> retirement. Many of the other plans provided for a refund of pension contributions with interest upon premature death, but 603,883 members were in plans that provided not a single penny to surviving spouses.

Credit-Splitting on Marriage Breakdown. Neither the federal government nor most provincial governments make specific provision for the sharing of future pension benefits between spouses if their marriages break down.

Manitoba requires a 50-50 split and says credit-splitting cannot be overriden by a separation agreement or court order. Some other jurisdictions allow pension credits to be part of the package of assets divided on marriage breakdown. What could happen in these cases is that a wife could waive half her husband's occupational pension plan benefits in exchange for a larger share of the equity in the family home. That may serve the wife well in the short run, but leave her without adequate pension income in her old age.

Poor Coverage in the Private Sector

The most obvious weakness of occupational pension plans is their poor coverage of workers in the private sector. As we mentioned earlier, coverage in the public sector is reasonably complete, but only one of three workers in the private sector belongs to an occupational pension plan.

Figure E shows that the glaring contrast between the public and private sectors goes back many years, and the gap is actually worse today than it was nearly two decades ago. Nearly 98 percent of employed paid workers in the public sector were covered by 1986. Coverage in the private sector was a mere 32 percent, only marginally better than the comparable 1970 figure of 30 percent.[19]

Within the private sector, coverage is heavily weighted in favor of employees of large businesses and industries and in favor of men rather than women.

Employed Paid Workers in Occupational Pension Plans, 1970 and 1986

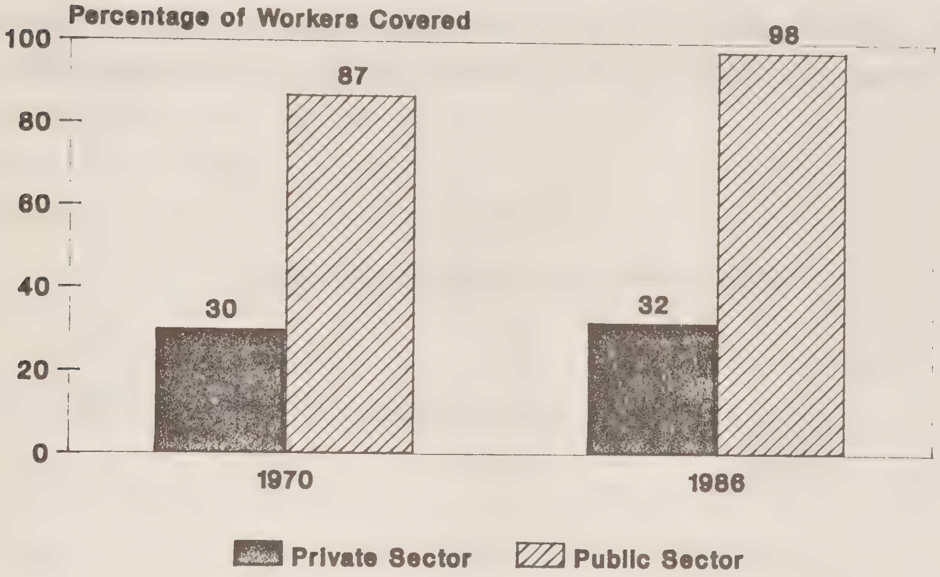

Figure E

Nearly 64 percent of all occupational plan members in the private sector work for firms with 1,000 or more employees. Many of these firms are heavy industries where workers are represented by strong labour unions. On the other hand, occupational plans are rare among firms with fewer than 100 employees and extremely rare among firms with fewer than 15 employees.

Men far outnumber women in terms of membership in private-sector occupational plans, partly because men are more likely than women to be employed by large companies. There were nearly 1.9 million men in the private sector who belonged to pension plans in 1986 and fewer than 691,000 women.

The relative lack of coverage in the private sector as a whole is reflected in the overall statistics on occupational plans. The number of

plan members and the percentage of the labour force covered have been fairly static during the 'eighties. As Table 8 shows, coverage overall in 1986 was down slightly to 46 percent. Among men, coverage dipped to 52 percent, while coverage among women was unchanged at 37 percent.

TABLE 8

OCCUPATIONAL PENSION PLAN MEMBERSHIP

	Number of Members	Percentage of Employed Paid Labour Force		
		Men	Women	Total
1960	1,815,022	N/A	N/A	36
1970	2,822,336	47	32	42
1980	4,475,429	54	38	48
1982	4,657,935	54	36	47
1984	4,564,623	54	37	47
1986	4,668,381	52	37	46

It is difficult to say what will happen under the new federal and provincial pension laws. Opening up plans to regular part-time workers should presumably increase membership. As we noted earlier, women are more likely than men to have part-time jobs.

On the other hand, some commentators predict that small employers may feel unduly burdened by government regulations to the point where they would hesitate to start new plans or might even abandon existing ones.

Whatever happens to coverage overall, it seems unlikely that occupational pension plans will ever be an important source of retirement income to people in low-wage jobs. Coverage by contributory pension plans increases sharply as incomes rise. Coverage by non-contributory plans is probably similar, but neither Statistics Canada nor Revenue Canada has income data on members of non-contributory plans. As Table 9 shows, only a small percentage of the poorest wage-earners belonged to contributory plans in 1986, and the average contribution by plan members with incomes under $15,000 was a mere $354. At the other end of the income scale, among workers with incomes over $45,000, coverage was much more complete and the average contribution by plan members was $2,323.[20]

TABLE 9

MEMBERSHIP IN CONTRIBUTORY OCCUPATIONAL PLANS BY INCOME, 1986

Income Range	Contributors	Employees with Taxable Incomes	Percentage of Contributors	Average Contribution
Under $15,000	256,610	2,634,060	10%	$ 354
$15,000-$29,999	1,464,360	3,839,470	38	863
$30,000-$44,999	1,221,470	2,062,470	59	1,491
$45,000 and over	570,930	889,680	64	2,323
	3,513,370	9,425,660		

Spotty Inflation Protection

Another major flaw in occupational pension plans is the lack of inflation protection, especially in the private sector. Plans are free to provide cost-of-living protection for pensioners, but they are not required to do so by governments. Ontario, but no other jurisdiction, has committed itself to requiring partial indexation in all the plans that it regulates.[21]

Indexation is a vital part of any good pension plan because many pensioners live well beyond the age of retirement. Even a small amount of inflation can cut into the purchasing power of a pension cheque in short order. At inflation of only four percent a year, for example, pensioners lose about 30 percent of their purchasing power in 10 years without indexation. A monthly cheque of $600 becomes a cheque worth only $416.

Only 34 percent of plan members in 1986 were covered by some form of automatic inflation protection for retirement benefits, but not necessarily full cost-of-living adjustments.

Table 10 shows that most employees protected by indexation were in the public sector. Nearly 67 percent of the members of public sector plans but only seven percent of the members of private sector plans had inflation protection of any kind.[22]

TABLE 10

INFLATION PROTECTION IN
OCCUPATIONAL PENSION PLANS, 1986

	Percentage of Members	
	Public Sector Plans	Private Sector Plans
Fully Indexed to Consumer Price Index	29.9	0.4
Partially Indexed	37.0	6.6
Total Full or Partial Indexation	66.9	7.0
No indexation	33.1	93.0

The lack of inflation protection appears in another way in those pension plans which are based on lifetime or career earnings. In 1986, 551,707 people or nearly 12 percent of all plan members belonged to career earnings plans, most of them in the private sector.

Career earnings plans normally consider a person's earnings from year to year with no adjustments for inflation. For example, a person who started work in 1946 at an annual salary of $2,000 a year, got regular increases from year to year and finished working in 1986 at an annual salary of $40,000 a year would probably wind up with average career earnings in the order of $20,000 a year. The person would then retire with a pension based on $20,000 a year rather than on his or her most recent pre-retirement earnings of $40,000 a year.[23]

Fortunately, most occupational plans treat members much better by basing their pensions on the best years of earnings or the last years of earnings. That means that a person can at least start out with a pension that is in line with the cost of living.

Conclusion

All in all, occupational pension plans play a limited role in providing retirement income for Canadians. Coverage continues to be concentrated in the public sector and in large industries in the private sector. Most women, most low-wage workers and most employees in the private sector continue to be left out. It remains to be seen whether this will change as a result of the latest round of changes in federal and provincial pension laws.

Changes in the laws affecting vesting, locking-in and portability should make it possible for more plan members to collect regular pension cheques when they eventually retire. Other changes, especially those regarding survivor benefits, are welcome and long overdue.

However, unless workers are lucky enough to belong to public sector pension plans or the few private sector plans that provide for full or nearly full indexation, whatever benefits they do receive are bound to be eroded by inflation.

THE THIRD LEVEL (CONTINUED): REGISTERED RETIREMENT SAVINGS PLANS

The other element of the third level of the retirement income system is registered retirement savings plans or RRSPs. Like occupational pension plans, RRSPs were intended to help people build up retirement income to replace a portion of their pre-retirement earnings. And like the occupational plans, they have turned out to be most helpful to middle-income and upper-income Canadians.

Registered retirement savings plans encourage regular saving for retirement through tax breaks. Taxfilers deduct the amount of their RRSP contributions from their taxable incomes each year and thereby pay lower federal and provincial income taxes.

People can cash in their RRSPs when they retire and use the proceeds to buy annuities that pay them fixed amounts of money every month. The income from annuities is taxable, but since most taxpayers are in lower tax brackets after they retire, they pay less in taxes than they would have paid during their working lives.

Money accumulated in an RRSP can also be rolled over into a Registered Retirement Income Fund or RRIF. Registered Retirement Income Funds have the effect of indexing retirement income to age 90 because they provide for an increase in payouts from year to year. Taxes are paid only on the money received each year.[24]

The latest available taxation statistics show that more than 3.2 million Canadians made contributions to RRSPs for the 1986 tax year - just over 19 percent of all the people who filed tax returns. The total amount contributed was more than $7.9 billion, and the average contribution was $2,462. There were nearly two million men with an

an average contribution of $2,714 and nearly 1.1 million women with an average contribution of $2,063.[25]

The federal government puts limits on the amount of money people in different circumstances can contribute to RRSPs. In 1989, the limit was 20 percent of earned income to a maximum of $7,500 for people who did not belong to either occupational pension plans or deferred profit-sharing plans. Members of occupational pension plans had a limit of $3,500 minus their pension plan contributions. For example, a person who contributed $2,000 to an occupational plan was limited to $1,500 in contributions to an RRSP.

The federal government has been considering major increases in contribution limits ever since 1984. The latest version of these proposals would see the limit on RRSP contributions rise to $10,500 in 1990, $11,500 in 1991, $12,500 in 1992, $13,500 in 1993, $14,500 in 1994 and $15,500 in 1995. Thereafter, the limit would rise each year in line with increases in the average wage.

Similar increases would be allowed in contributions to money-purchase occupational pension plans.

The overall effect of the changes would be to have a system with limits on retirement savings that were more or less the same for all taxpayers by 1995.[26]

More For The Rich

There is no doubt that the tax savings linked to RRSPs make them a very attractive option for the well-to-do. The big problem, of course, is that many Canadians do not have lots of extra money to put aside on a regular basis.

Table 11 shows the income ranges of people who contributed to RRSPs for 1986. Sixty-one percent of the taxfilers with incomes of $45,000 or more took advantage of RRSPs and made an average contribution of $4,057. Only five percent of the taxfilers with incomes under $15,000 put money into RRSPs, and their average contribution was only $1,204.[27]

TABLE 11

CONTRIBUTORS TO RRSPs BY INCOME, 1986

Income Range	Number of RRSP Contributors	Percentage of Taxfilers Under 65 in Income Range	Average RRSP Contribution
Under $15,000	358,110	5%	$1,204
$15,000 - $29,999	1,217,560	28	1,987
$30,000 - $44,999	993,900	45	2,460
$45,000 and Over	646,780	61	4,057
	3,216,350		

What is even more inequitable is that the current system of tax deductions for RRSP contributions provides the largest tax savings to the well-to-do. An RRSP tax deduction of $1,000 is worth an average of about $450 in federal and provincial tax savings to a taxpayer in the highest income bracket. The same deduction of $1,000 is worth only about $264 to a taxpayer in the lowest bracket.

Under tax reform, the federal government decided to convert personal exemptions and most deductions to tax credits. Even the tax deductions for contributions to the Canada and Quebec Pension Plans were converted to credits starting in 1988. However, Ottawa refused to do the same for contributions to occupational pension plans and RRSPs, which will continue to be tax-deductible.

Tax credits are fairer than deductions because they provide the same savings regardless of which tax bracket a person is in. For example, the value of the new tax credit for maximum CPP contributions in 1989 is $89.25. A taxpayer in the top tax bracket gets a tax saving of $89.25, and a taxpayer in the lowest tax bracket gets exactly the same tax saving of $89.25.

In conclusion, RRSPs do encourage saving for retirement, but primarily by those who have large amounts of discretionary income from year to year. They reward the rich the most, they offer modest encouragement to people with average incomes and they provide very little help to the poor.

Given the financial realities facing people in different income groups, there is unlikely to be any change in this pattern in years to come. If the government proceeds with its plans for huge increases in contribution limits, the likely result will be that RRSPs will become even more the preserve of the rich than they are at the present time.

CONCLUSION

Although a number of improvements were made in all three levels of Canada's retirement income system in recent years, the system still has profound limitations that have not been adequately addressed by governments.

At the first level, combined federal and provincial benefits are not high enough to keep all seniors out of poverty. Although poverty among the elderly is much less widespread than it was a generation ago, nearly 24 percent of all Canadians 65 and older were living in poverty in 1987.[28]

At the second level, the one shortcoming of the Canada Pension Plan and Quebec Pension Plan that overshadows all others is the low limit on retirement benefits. The plans were designed to replace a maximum of 25 percent of earnings up to the average industrial wage. Even with a full CPP or QPP pension and the Old Age Security pension, a retired person needs a sizable Guaranteed Income Supplement to get over the poverty line for a large city.

At the third level, the improvements already made in occupational pension plans are welcome and long overdue and seem certain to provide tangible benefits to workers lucky enough to be members. However, occupational plans still have two major flaws - poor coverage of women and of workers in the private sector and abysmally poor inflation protection in plans offered by private sector employers.

Well-off employees rather than those with below-average incomes are the main beneficiaries of occupational pension plans. The same holds

true for registered retirement savings plans. RRSPs have long been a choice tax break for wealthy Canadians, and the rich will be the main beneficiaries of federal plans to increase the contribution limit in stages from $7,500 to $15,500 a year during the next several years.

All in all, the changes of recent years have only begun to meet the financial needs of seniors. Pension reform has dropped far down on the social policy agendas of governments, but the need for further action remains urgent.

The National Council of Welfare has been working on options for improving all three levels of the retirement income system, and it hopes to publish a report with specific recommendations for improvements sometime in 1990.

Canadians are fond of talking about the respect and recognition senior citizens deserve for their contributions to our country. We agree wholeheartedly, but we believe seniors also deserve a pension system that gives them a reasonable chance of retiring in comfort and dignity.

APPENDIX A

THE RETIREMENT INCOME SYSTEM

LEVEL ONE	Beneficiaries	Eligibility
* Old Age Security	2.9 million 65+	Universal Pending Clawbacks
* Guaranteed Income Supplement	1.4 million 65+	Based on Income
* Spouse's Allowance	135,000 60-64	Based on Income
* Provincial/Territorial Supplements	430,000 Mostly 65+	Based on Income

LEVEL TWO	Contributors	Pensioners
* Canada Pension Plan	8.9 million	1.6 million
* Quebec Pension Plan	2.9 million	0.5 million
TOTAL	11.8 million	2.1 million

LEVEL THREE	Plan Members in Labour Force	Retired Beneficiaries
* Occupational Pension Plans	4.7 million	1.2 million
* Registered Retirement Savings Plans	3.2 million	332,000 ?[29]

APPENDIX B

TAX BREAKS FOR SENIORS

In addition to the tax deductions and tax credits for pension contributions that were mentioned in the body of this report, older Canadians are able to take advantage of several other tax breaks designed specifically with them in mind.

Prior to 1988, the most commonly used breaks for seniors included the age exemption for people 65 and older, the pension income deduction covering the first $1,000 of income received each year from occupational pension plans or registered retirement savings plans and the interest and dividend income deduction covering the first $1,000 of interest or dividends received.

Under tax reform proposals that took effect for the 1988 tax year, the interest and dividend income deduction was abolished. The age exemption was converted to a non-refundable tax credit of $550 that is partially indexed each year to the Consumer Price Index. The pension income deduction was changed to a non-refundable tax credit of 17 percent of pension income, with a maximum credit of $170.

Exemptions and deductions reduce taxable income and therefore provide the largest benefits to taxpayers in the highest tax bracket. Credits reduce the actual tax payable and therefore provide the same dollar benefits to taxpayers in all tax brackets. Non-refundable means a credit reduces the amount of tax owed, but it cannot be used by people too poor to pay any tax.

Since tax credits reduce the basic federal tax on which the territories and all the provinces except Quebec base their own income taxes, credits automatically reduce taxpayers' provincial or territorial income tax as well. Provincial taxes vary from one province to another, but they average 55 percent of the federal basic tax. As a result, the total value of the age credit averages $862 in combined federal-provincial tax savings in 1989 and the pension income credit up to $264.

In addition to these new non-refundable credits, many seniors are able to claim the refundable federal sales tax credit by virtue of their modest incomes. In 1989, the full credit of $100 for each adult and $50 for each dependent child goes to families with net incomes of $16,000 or less. Benefits are reduced by five cents for every dollar of family income above $16,000.

The sales tax credit is called refundable because the full amount goes to all eligible people whether or not they pay any income taxes. If they pay income tax, they deduct the sales tax credit from the taxes they owe. If they are too poor to pay income tax, the federal government mails them a cheque for the amount of the sales tax credit.

APPENDIX C

PROGRAMS FOR SENIORS

The following list includes programs run by provincial and territorial governments which provide benefits exclusively or primarily to elderly residents. Most of the information comes from the 1988 edition of Inventory of Income Security Programs in Canada compiled by Health and Welfare Canada. The benefit levels are those that were in effect as of January 1988 unless otherwise stated.

NOVA SCOTIA

Rental Assistance Program

Singles and couples who receive the federal Guaranteed Income Supplement or Spouse's Allowance and elderly singles whose incomes are below $9,800 are eligible for a rental subsidy if their rents exceed 30 percent of income. Maximum assistance is $95 a month for a single person and $111 a month for a couple.

Property Tax Rebate for Senior Citizens

Homeowners who receive the Guaranteed Income Supplement or Spouse's Allowance are eligible for a rebate of 50 percent of net municipal property taxes paid in the previous year.

NEW BRUNSWICK

Assistance for the Reduction of Rental Costs (ARC)

Renters aged 60 and over and disabled persons whose assets do not exceed $15,000 are eligible for a rent supplement. A single renter can get a supplement of up to $150 a month provided that monthly income is under $300. The maximum supplement for a couple is $169 a month if income is under $300.

QUEBEC

LOGIRENTE (Senior Citizens' Rental Assistance Program)

Low-income homeowners, renters and boarders 60 and older are eligible for an allowance if their shelter costs are more than 30 percent of their incomes. The maximum payment is $85.28 a month for a roomer, $118.65 for a single owner/renter and $91.20 for a couple.

MANITOBA

Shelter Allowance for Elderly Renters (SAFER)

A monthly benefit of up to $140 is available to people 55 and older whose rent takes up more than 25 percent of their incomes. The maximum SAFER payment goes to single persons with incomes under $14,100 a year and to couples with incomes under $15,000.

School Tax Assistance for Tenants 55 Plus

Tenants 65 and older (as well as those 55 to 64 with incomes under $23,760) are eligible for financial assistance to cover 10 percent of rent above $1,625. The maximum benefit is $175 a year.

Pensioner Homeowners' School Tax Assistance

Homeowners 65 and older (as well as those 55 to 64 with family incomes below $23,750) are eligible for a rebate of school taxes above $162.50. The maximum benefit is $175 for each homeowner household.

SASKATCHEWAN

Saskatchewan Pension Plan

This voluntary provincial pension plan created in 1986 was intended to assist people who are not adequately covered by existing public or private pension plans. Residents of Saskatchewan between the ages of 18 and 65 can contribute up to $600 a year to the plan, and the provincial government matches contributions for low-income people up to $300 a year.

The accumulated contributions plus interest are used to buy a life annuity when the plan member decides to retire. During the first ten years of the plan, members who had matching contributions from the province are guaranteed monthly pensions at age 65 of $15 for every $300 contributed by the province.

Senior Citizens' Heritage Program

Homeowners and renters 65 and older get benefits based on their incomes. The maximum benefits are $500 a year for a single person and $700 a year for a couple. The maximums go to people with incomes under $25,000.

ALBERTA

Alberta Widows' Pension

The Alberta Widows' Pension provides monthly payments to low-income

widows and widowers aged 55 to 64 years. The maximum pension payable is $720 a month.

Senior Citizens' Renter Assistance Grant and Widows' Renter Assistance Grant

This benefit is available to tenants 65 and older, widowed tenants 60 to 64 whose deceaed spouses were 65 or older and eligible for the program at the time of death, and low-income tenants 55 to 64 receiving a pension under the Widow's Pension Act.

The maximum annual grant is $1,200 for persons in the private rental market, $1,000 for owners of mobile homes on rented land, and $600 for tenants living in subsidized housing.

Property Tax Reduction Benefits

This property tax rebate is available to homeowners 65 or older, widowed homeowners aged 60 to 64 whose deceased spouses were 65 or older and eligible for the program at the time of death, and widowed persons 55 to 64 receiving a pension under the Widow's Pension Act. For seniors, the maximum reduction is the difference between the lesser of $1,000 or municipal taxes and the provincial education tax.

Senior Citizens' Home Heating Protection Program

Seniors, widowed persons 60 to 64 whose deceased spouses were eligible for the program at the time of death, and widowed persons 55 to 64 receiving the Alberta Widow's Pension get $100 a year to help defray the cost of heating their homes.

BRITISH COLUMBIA

Shelter Aid for Elderly Renters (SAFER)

Renters 65 and older who pay more than 30 percent of their incomes for rent may be eligible for a shelter subsidy. The maximum monthly benefit is $90.86 for a single person and $11.56 for a couple.

NORTHWEST TERRITORIES

Senior Citizens' Land Tax Relief

Homeowners 65 and older do not pay local property taxes.

YUKON

Pioneer Utility Grant

Homeowners and renters 65 and older and surviving spouses 60 and older are eligible for an annual grant of $600.

APPENDIX D

PROGRAMS FOR SENIORS AND OTHERS

The following list includes programs run by provincial and territorial governments which provide benefits to seniors and also to non-elderly residents. In some cases, benefits are higher for seniors than for others.

Most of the information comes from the 1988 edition of Inventory of Income Security Programs in Canada compiled by Health and Welfare Canada. The benefit levels are those that were in effect as of January 1988 unless otherwise stated.

NEWFOUNDLAND

School Tax Exemption

People 65 and over and low-income families and individuals under 65 are exempt from local school taxes (either the poll tax or property tax).

PRINCE EDWARD ISLAND

Provincial Tax Credit

The program provides an automatic annual credit of 75 cents per $100 of assessment on all non-commercial property owned by residents.

NEW BRUNSWICK

Residential Property Tax Credit

Homeowners are eligible for a credit equal to $1.50 per $100 of assessed value in municipalities and 85 cents per $100 assessment in local service districts and unincorporated areas.

Residential Property Tax Allowance Program

Homeowners are eligible for the allowance if their net family incomes for the previous year did not exceed $9,500. The maximum allowance is $200.

QUEBEC

Real Estate Tax Refund (Remboursement d'impôts fonciers)

Residents of Quebec may apply for this credit on their provincial income tax forms. It is available to both homeowners and tenants with respect to property taxes levied in the previous taxation year. The maximum credit is $400, plus $100 for recipients of the federal Guaranteed Income Supplement or Spouse's Allowance.

ONTARIO

Property Tax Credit

Homeowners and tenants of low and modest incomes get provincial income tax credits of up to $250 plus ten percent of their property taxes or rental costs.

Sales Tax Credit

People of low and modest incomes get provincial income tax credits of up to $100 for each adult and $50 for each child.

MANITOBA

Cost-of-Living Tax Credit

Low-income seniors can claim enhanced credits of up to $300 for singles and $600 for couples. Benefits are reduced by one percent of net family income.

Property Tax Credit

Low-income seniors are entitled to the basic credit of up to $525, plus an additional $100, minus one percent of net family income.

SASKATCHEWAN

Saskatchewan Tax Reductions

Low-income taxpayers can claim provincial tax reductions to offset sales and income taxes. Many seniors can claim a tax reduction of up to $400 depending on their incomes and taxes owing. Benefits are reduced for people with incomes over $10,000.

ALBERTA

Waiver of Medicare Premiums

Seniors, as well as younger people with low incomes, do not have to pay public health insurance premiums. Effective October 1, 1989, premiums amount to $237 a year for a single person and $474 for a family.

BRITISH COLUMBIA

Medicare Premium Assistance

Low-income seniors and other low-income people can have up to 95 percent of the normal medicare premiums waived by the provincial government. As of April 1, 1989, the annual cost of premiums was $372 for single people, $660 for couples and $744 for families of three or more.

Home Owner Grant

Homeowners and certain renters may get grants to reduce their property taxes. Seniors get enhanced grants of up to $630 a year.

Land Tax Deferment Program

Homeowners 65 and older, widowed persons and certain handicapped persons can defer property taxes in excess of $630 a year.

NORTHWEST TERRITORIES

Homeowners' Property Tax Rebate Program

Persons who own and occupy their own homes (including mobile homes) may apply for a rebate of 50 percent of municipal taxes to a maximum of $400 per household.

YUKON

Home Owner's Grant

Elderly homeowners and others are eligible for a reduction in property taxes. Seniors get an enhanced grant equal to the lesser of $350 and 75 percent of actual property taxes.

FOOTNOTES

1. The statistical information in this chapter was provided by Health and Welfare Canada. Among the most useful sources of information is Income Security Programs Monthly Statistics, available from the Department's Income Security Programs Branch. The publication also includes statistics on the Canada Pension Plan and family allowances.

2. As of January 1, 1989, there were agreements in force between Canada and the following countries: Austria, Barbados, Belgium, Denmark, Dominica, Finland, France, Germany, Greece, Italy, Jamaica, Norway, Portugal, Saint Lucia, Spain, Sweden and the United States.

   Within a few years of the 1977 change in residence requirements, provincial governments expressed concern that some recipients of partial OAS pensions would wind up on welfare. The federal government responded in 1984 by introducing a kind of "super" Guaranteed Income Supplement for these pensioners. In effect, the super GIS covers any losses in OAS as well as providing benefits equivalent to the regular GIS. See the next section of this chapter for more information about the GIS.

3. Income that is not taxable under the Income Tax Act is not considered in calculating entitlements for the Guaranteed Income Supplement. As well, the Old Age Security Act specifically exempts the following sources of income for GIS purposes: Old Age Security pensions, family allowances, death benefits under the Canada Pension Plan and Quebec Pension Plan, provincial and territorial income supplements, provincial and territorial welfare payments, and home insulation grants.

   Both the Guaranteed Income Supplement and the Spouse's Allowance are based on income rather than need in the strict sense of the word. People qualify for benefits on the basis of a simple, straight-forward income test. Personal assets such as a home or car are not considered at all. Income-producing assets such as bonds and rental property are considered only to the extent that they actually provide income in any given year.

4. For details of how poverty among the elderly has changed in recent years, see the National Council of Welfare's Poverty Profile 1989 (Fall, 1989). The poverty rate for families with elderly heads fell from 41.4 percent in 1969 to 14.1 percent in 1987, the latest

year for which statistics are available. The poverty rate for the unattached elderly was 69.1 percent in 1969 and 47.9 percent in 1987.

5. The poverty lines are described in detail in the National Council of Welfare's publication 1989 Poverty Lines (April, 1989). They are calculated by Statistics Canada for individuals and families of different sizes living in areas ranging from rural areas to large metropolitan centres. The larger the family or community, the higher the poverty line. Statistics Canada calls them "low-income cut-offs," while the National Council of Welfare uses the terms "poverty lines" or "low-income lines." Regardless of the term, they represent levels of gross income where families or individuals have to spend inordinate proportions of their income on food, shelter and clothing.

6. Prior to 1985, the Spouse's Allowance program covered only those widows and widowers who first qualified for the allowance when their spouses were alive. Among those excluded from the program were widows whose husbands died before age 65 and widows who were under 60 when their pensioner husbands died.

7. Details of the provincial and territorial programs are included in the November 1987 issue of Income Security Programs Monthly Statistics. Most of the supplements were unchanged in 1988 and 1989.

8. Poverty Profile 1989.

9. The poverty lines for each city were chosen on the basis of population figures in the 1986 census.

10. The main reason occupational plans have to be fully funded is to protect employees in the event the employer goes out of business. Clearly, the federal and provincial governments will not be going out of business, so full funding is not needed in the Canada and Quebec Pension Plans.

11. Poverty Profile 1989.

12. Ontario has a veto over changes in the Canada Pension Plan because it alone has more than one-third of the population of Canada. Changes in the plan require the approval of the federal government and two-thirds of the provinces with two-thirds of the population.

13. To the extent that the earnings of wives are less than the earnings of their husbands, credit-splitting benefits wives. In cases where wives earn more than their husbands, it benefits husbands.

    Credit-splitting applies only to a period of marriage or cohabitation, but it applies to all such relationships that qualify under the definition of spouses in the legislation. For example, a man who was married for 10 years, divorced and married a second time for 15 years could have 10 years of pension credits split and equalized with his first wife and 15 years of credits split and equalized with his second wife.

14. Much of the information in this chapter comes from Pension Plans in Canada, 1986, published by Statistics Canada (Ottawa: Minister of Supply and Services, 1988) and earlier versions of this report.

15. Revenue Canada Taxation, Taxation Statistics, 1988 Edition (Ottawa: Minister of Supply and Services, 1988). The tables in this chapter and the following chapter were constructed by the National Council of Welfare using figures contained in the report. Each annual edition of Taxation Statistics refers to tax returns from two years earlier.

16. Some analysts argue that there is no real difference between contributory and non-contributory plans. Their point is that employers have limits on the amounts they are prepared to spend on salaries and benefits. If the arrangement is to have a non-contributory pension plan, presumably workers would get lower wage increases or less generous fringe benefits than their counterparts at a similar company that had a contributory pension plan.

17. Employer contributions to occupational plans were estimated by the National Council of Welfare by adding three percent to the 1985 figure given in Pension Plans in Canada, 1986.

18. The maximum pension of $60,025 is equal to $1,715 in benefits for each year of service times 35 years. Revenue Canada does not "register" plans that provide benefits in excess of $1,715 or two percent of best earnings a year, whichever is smaller. Employers and workers are unable to claim tax deductions for pension contributions if their occupational pension plans are not registered.

19. Figure E and Table 8 in this chapter are taken from Pension Plans in Canada, 1986 and additional information supplied by Statistics Canada.

20. Taxation Statistics, 1988 Edition. The category "employees with taxable incomes" was chosen as a reasonable measure of the extent of pension coverage. Employees can belong to occupational plans, but not self-employed people.

    However, the table does understate coverage because it lists members of contributory pension plans only. Members of non-contributory plans do not show up in taxation statistics.

21. For details of the proposals, see the Ontario Ministry of Financial Institutions, Building on Reform: Choices for Tomorrow's Pensions (Toronto: 1989).

22. The figures in Table 10 do not take account of pension plans that make *ad hoc* increases in pension benefits from time to time. Indexation refers to automatic increases on a regular basis that plan members can depend upon. *Ad hoc* increases by their very nature are erratic and unpredictable.

23. The Canada and Quebec Pension Plans also use career earnings, but each year's earnings are adjusted for the growth in average earnings up to the year of retirement. See also Chapter 2 of this report.

24. The basic idea behind Registered Retirement Income Funds is simple, but some of the options are anything but. For more information, consult one of the annual consumer guides for retirement income plans sold at bookstores.

25. The taxation statistics do not distinguish between contributions to an individual's own RRSP and contributions to a spouse's RRSP. Spousal RRSPs are subject to the same general restrictions as regular RRSPs. The main difference is that the person making the contribution to a spousal RRSP gets the tax deduction and the spouse gets the money that accumulates in the plan.

26. Under the new system, contributions to RRSPs and money-purchase plans would be limited to 18 percent of earnings up to the yearly dollar limits. The Finance Department says contributions of 18 percent would produce benefits about the same as those already available under the current limits for defined-benefit plans.

    Members of both money-purchase and defined-benefit pension plans would continue to be eligible to make modest contributions to RRSPs in some cases, but that would depend on their pension plan contributions.

For details of the new system, see the Finance Department, Saving for Retirement: A Guide to the Tax Legislation (Ottawa: March 1988) and a subsequent information bulletin issued by the Department on August 19, 1988.

27. Information on contributors and contributions in Table 11 comes from Taxation Statistics, 1988 Edition.

28. Poverty Profile 1989.

29. Taxation Statistics, 1988 Edition, says there were about 332,000 taxfilers who claimed income from annuities in 1986. Presumably most, but not all of these people were pensioners who had cashed in RRSPs to buy annuities.

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NATIONAL COUNCIL OF WELFARE

The National Council of Welfare was established by the Government Organization Act, 1969 as a citizens' advisory body to the Minister of National Health and Welfare. Its mandate is to advise the Minister on matters pertaining to welfare.

The Council consists of 21 members, drawn from across Canada and appointed by the Governor-in-Council. All are private citizens and serve in their personal capacities rather than as representatives of organizations or agencies. The membership of the Council has included past and present welfare recipients, public housing tenants and other low-income citizens, as well as lawyers, professors, social workers and others involved in voluntary service associations, private welfare agencies, and social work education.

Reports by the National Council of Welfare deal with a wide range of issues on poverty and social policy in Canada, including: income security programs, medicare, poverty lines and poverty statistics, the retirement income system, the aged, tax reform, the working poor, children in poverty, community economic development, women and poverty, employment policy, single-parent families, social services, nutrition, community organizing, child welfare, poor people's groups, legal aid/legal services, low-income consumers, poverty coverage in the press and welfare reform.

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